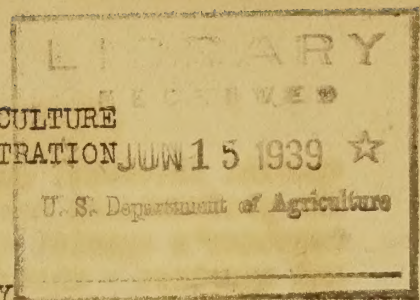


UNITED STATES DEPARTMENT OF AGRICULTURE
 AGRICULTURAL ADJUSTMENT ADMINISTRATION
 CONSUMERS' COUNSEL DIVISION



STATEMENTS BY D. E. MONTGOMERY
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 AT HEARING ON CONSUMER PROBLEMS
 BEFORE TEMPORARY NATIONAL ECONOMIC COMMITTEE
 WASHINGTON, D. C.

OPENING STATEMENT: MAY 10, 1939

Mr Chairman and Members of the Committee: I wish briefly to explain who these witnesses are and why they have asked this opportunity to appear before you. Four of them, Mrs. Beleston, Mrs. Roller, Dr. Ayres, and Miss Campbell, are leaders in consumer organization work and are at the same time managers of family households. They will bring you the story, in its different parts, of the chaotic, uninformed and unlightened circumstances under which the average consumer must spend money for the service of family and individual needs. Mr. Masters is an officer of one of the major information services which consumers have set up in an attempt to solve by their own devices the innumerable and perplexing riddles of the marketplace. He will further expound the consumer's spending problem, based upon his experience in serving 80,000 consumer families whose subscriptions support the service which he represents.

Following the direct consumer testimony you will hear the testimony of two manufacturers, Mr. Ephraim who is engaged in business on a small scale and Mr. Walker who is associated with one of the largest manufacturing and distributing organizations in the world. Their testimony will tend, we anticipate, to confirm what the consumers will have told you, approaching the same questions from the manufacturing and selling side of the retail transaction.

Mr. Maddux will testify as a professional, paid purchaser of consumer goods, based upon his experience as purchasing agent of Hamilton County, Ohio. A final witness will sum up the significant points in the testimony particularly those that may relate directly to the further investigations and reports and recommendations of your Committee.

All of these people come to you as persons qualified to speak for and of that growing development of popular interest which now is generally referred to as the consumer movement. I venture the prediction that this Committee will hear the testimony of no other witnesses who will discuss matters that touch so directly and so intimately the immediate practical problems of all the homes and families of the nation.

The Consumer's Role

Everyone, as is stated so frequently, is a consumer. The consumer is everybody. That is not to say, however, that the consumer interest and the public interest are one and the same. They are not. The consumer's is a

special interest, just as the interests of the wage earner, the employer, the professional man, the farmer, the taxpayer are special interests. The consumer's special interest turns upon the spending of his income for goods and services - what he gets for his money, how much money he spends to get it. This together with his occupational, taxpaying, voting and sundry other interests make up the whole citizen. All of these interests of all citizens make up the public interest.

These spokesmen of the consumer movement come before you, therefore, as specialists in the expenditure of family and personal income. The movement for which they speak is nothing more or less than the growing recognition of this money-spending interest on the part of rapidly increasing numbers of people.

It began in 1927 when Stuart Chase and F. J. Schlink published a book called "Your Money's Worth" which stimulated among many people that curiosity about commodities which is, so to speak, the motive power of the consumer movement. With the increasing severity of the depression this interest spread rapidly and stimulated a great variety of activities, including a marked revival of interest in and development of consumers' cooperation, a movement which had survived a long history of success and failure in earlier years.

Extent of Movement

The consumer movement has been sufficiently described and catalogued in print to require no detailed exposition at this point. Most recent of these descriptions is in the April 22 issue of "BUSINESS WEEK," a monograph which describes the many angles and major current problems of the movement and states the case fairly from the business point of view and, with one or two exceptions, from the consumer point of view also.

Suffice it to note only that the consumer movement embraces a wide variety of programs, ranging from education on specific commodities and general education on consumer economics, through many kinds of organized activity on various economic and legislative fronts, and on to the development of cooperative purchasing of consumer goods on a large and well organized business scale.

No census of the consumer movement has been or could be attempted. It enters into the programs of many of the large organizations of women; it is reflected in the curricula of hundreds of high schools and many colleges; in one way or another it must have brought millions of people within some phase of its educational or action program.

Estimates of Membership

Rough estimates have been made of the number of people who have made some contact with the consumer movement. Such an estimate by the Crowell Publishing Company last year said that more than five million women in various organizations are affected by consumer educational material and are more or less active in efforts to secure legislation favorable to consumers.

I am filing with the Committee an excerpt from the "Journal of Marketing" of July, 1938, which quotes this estimate and lists some of the organizations which have taken some part in the consumer movement.*

In addition, I might say, the most recent reports from Government sources indicate that more than 1,375,000 people are members of retail cooperative societies, including both the urban and the farm purchasing groups.

"The Consumer Wants To Know"

Running through all the varied aspects of the consumer movements is the central thread, its unifying principle so to speak, which is its insistence that consumers be given opportunity to make sensible choices in spending their money for the ordinary purposes of living.

This means that consumers want facts, facts about goods, facts about prices, facts about the comparative value and usefulness of commodities offered for sale. "The consumer wants to know." That is the main stem of the consumer movement. It has many ramifications reaching out into numerous special areas where the ultimate consumer comes into contact with the world he lives in.

One excursion of this organized curiosity deserves the special attention of this Committee. A delegation of consumer leaders representing many thousands of consumers in their membership came to Washington 15 months ago to confer on questions of Government and the consumer. A committee of this conference submitted to the President on February 24, 1938, a proposal that just such an inquiry as your committee is now engaged in be undertaken by the Congress. I shall file a copy of the proposal which was submitted to the President on that day.* I quote from it only the following:

"In our concern for production we have allowed it to exploit consumption and, in the process, to cripple its customers for whom, and for whom alone, it confessedly exists . . . In a democracy no economic system makes sense which is not run so as to maximize consumption. Yet our economic system is primarily run to maximize profits - and the consumer takes the hindmost . . .

"A major need at present is to put current business under the microscope to ask: How does it operate and, operating as it does, how and where does it promote or curtail the welfare of our people who live by it and its products. . . . Self-regulation at a round table must include self-regulation by the whole people through government participation.

"Government can play an effective role only if its policies are based upon an understanding of what is wrong and what needs to be done. The consumer can play an intelligent role at that table only when he knows the facts and how they affect him, and he is powerless to collect these facts himself."

*See Appendix B.

M. H. JUN 26 1938

Aims of The Consumer Movement

While the aims of the consumer movement have very direct practical bearing on the every day problems of the average American family, they bear also in a significant way upon the questions before your Committee. Usually the theory and practice of competition in the business world is discussed in terms of the activities of business organizations. For example, are the business units in an industry competing in the sale and purchase of goods, or are they controlling their markets by combination, conspiracy, or otherwise?

However, it should not be forgotten that the assumed virtues of competitive enterprise depend for their validity upon the belief that the public at large shall pass final judgment upon the goods and services which such enterprise produces. What I am saying is that in a system of free enterprise the choices which consumers make in the spending of their money provide the ultimate test of competitive virtue and distribute the rewards according to merit.

Unless the consuming public is in a position to make this final judgment of approval or disapproval, there can be no assurance that business enterprise is serving the public interest. Insofar as consumers may not be able to know where their own interest lies in the selection of goods and services, they cannot exercise this power to shape the affairs of industry toward maximum satisfaction of their wants.

Organized Sales Efforts

The present strength and vigor of the consumer movement derives obviously from the realization by a great and ever increasing number of consumers that somehow they do not quite succeed in exercising this final judgment over the products of industry and commerce. They find themselves the subject of a great mechanism of organized sales effort. They suspect that their wishes are not the sole determining factor of the kind and quality and price of commodities offered for sale. And, most important of all, they know that their choices between one kind of merchandise and another are necessarily determined in large part by prejudice, hunch and ignorance, because the facts about merchandise upon which they might make an intelligent choice are not disclosed to them in terms that relate specifically to their needs as purchasers and users of commodities.

In the testimony which follows we propose to show you by examples in how many ways it is true that consumers cannot spend money intelligently to serve their own interests. We believe that we describe a general condition - confusion and disorganization of the market place at its retail level where commodities pass through the final transaction and into use.

We believe that whatever else the Committee may recommend to improve the functioning of economic affairs toward abundance, stability, and security, there can be no assurance that the benefits of such improvements will pass to the consumer in tangible and specific additions to the standard of living unless and until the consumer as a buyer of goods is given an active and significant role in the economic system.

There can be no free enterprise if the citizen as a consumer is not also free. The consumer cannot be free so long as he must remain in ignorance and confusion on how to spend his money to get what he needs and wants.

There is, of course, the alternative that we abandon the system of free enterprise and intentionally adopt a controlled economy, in which case it is likely that consumers will be told, rather than asked, what they shall purchase and use. The rather wide extent to which consumers today are more told than asked what they wish to buy is probably a most significant measure of the distance we have already come from a competitive to a dominated and controlled economy.

It is suggested that the Committee's further inquiries might well give attention to the methods employed by various industries to dictate consumer selection and to narrow and restrict the consumer's opportunity to select the kind of merchandise or the kind of merchandising service which best meets his particular needs.

The freezing of industrial and commercial initiative, which is characteristic of the drift toward concentration, is nowhere more dramatically revealed than in the treatment accorded by an industry to its ultimate consumers.

Cooperative Movement

The testimony which follows contains no word on the consumers' cooperative movement. Doubtless this is a major subject which your committee will want to consider in its investigations. It is too large a subject and touches in too many ways upon the protection and advancement of the consumer interest, to receive adequate attention in these brief hearings. I am sure the cooperative movement stands ready to tell this Committee what it hopes to do and what it is already doing to put back into the hand of consumers a really effective force for the determination of their own economic welfare.

One word more. In the testimony which these consumer representatives are to present to you such references as are made to particular brands or particular manufacturers are incidental and by way of illustration only. In many parts of the testimony it was feasible to eliminate the identifying names. These witnesses are concerned not with malefactors but with a condition. Their complaint runs not so much against specific frauds and abuses as against a general and continual neglect of the consumers' need for reliable and informative facts about the goods and services for which they spend their money.

CLOSING STATEMENT: MAY 12, 1939

Standards

All of the witnesses testifying on May 10 and May 11 have shown the difficulties confronting consumers in making their purchases.

Mrs. Alice Delester, Chicago housewife, testified that the facts given in advertising, on labels, and by sales clerks are not the facts which she needs.

Mrs. Paul S. Roller, Berwyn, Md., of the American Association of University Women, testified that neither she nor other consumers can rely upon brand names as a basis for judging quality, although consumers are repeatedly urged to make their selections on the basis of brand. She showed that brand and quality do not necessarily correspond. She testified also that variations in the size of package deceive consumers with respect to comparative prices.

Dr. Ruth W. Ayres, New York City, an economist, testified to the impossibility of making intelligent selection from among the confusing variety of sizes, brands, and prices, with quality factors not disclosed. She illustrated by her own purchases the deception which may follow the packaging of commodities in off-sizes.

Mr. Jerome W. Ephraim, New York City manufacturer, testified that his toothpaste which meets the standards of the American Dental Association can be sold to consumers at about half the price charged by the ten leading brands of toothpaste which occupy 90 percent of the market. He testified that only one of the ten leading brands has received the Association's acceptance.

Mr. Dexter Masters, New York City, testified to the unreliability of price as an indicator of the quality of merchandise. He, too, illustrated the need of standards whereby commodity characteristic can be accurately described to consumers, presenting evidence of the unreliability of the "grades" that are used in the sale of milk in one market; of the superior utility of a low-priced vacuum cleaner compared with others costing more than twice as much; of the great range in actual prices of toilet soaps all having substantially the same quality for cleansing purposes; of the range in price of lipsticks having the same approximate quality and the same low ingredient and container costs; and of the wide differences in qualities of different brands of shoes and tires selling at the same prices.

Witnesses appearing on May 12 showed (1) the need for standards in the merchandising of certain household equipment, and (2) the use of standards in purchases made by three public agencies in Cincinnati, Ohio. The first of these, Mr. L. R. Walker of Sears, Roebuck & Co., testified that in his opinion the sale of goods to consumers on the basis of standardized description of quality and performance would be beneficial to manu-

facturers, distributors and consumers and would contribute to the maintenance of competitive enterprise.

Consumer Credit

Dr. Ayres presented evidence of the deception practices by well-established stores and others with respect to interest charges quoted in installment contracts. She testified also that this deception was only a minor part of the injuries inflicted upon consumers through the methods by which credit is extended to consumers on their purchases, stating that the terms of installment contracts frequently run severely against the interests of the purchaser. /1

Consumer Services and Organizations

Mr. Masters testified to the need for a standard basis upon which the performance of commodity rating agencies might be compared and made known to consumers.

Miss Persia Campbell, New York City, executive secretary of Consumer's National Federation, offered evidence to show why consumers doubt the reliability of commodity rating services furnished by commercial agencies. She offered evidence to show the unreliability of consumer educational materials furnished by commercial sources to the schools. She offered evidence to question the purposes of consumer organizations sponsored by commercial sources. She called attention to a newspaper report to the effect that a leading trade association attorney had recommended regulation of those who say they represent consumers professionally.

Resale Price Maintenance

Dr. Ayres submitted extensive quotations from the trade press which reported (1) the organization of political pressure by retail druggists in favor of price maintenance legislation, (2) the organizations of boycotts and other forms of coercion by retail druggists upon manufacturers and the press, and (3) the effort of retail druggists to obtain an assured markup of 33 1/3 percent (of selling price) on advertised products. She testified that, because of such evidence, consumers have reason to fear the effects of price maintenance legislation, and she stated that consumers, because of this fear, want an investigation and a report of the actual effect of such legislation upon themselves and upon other factors involved. She testified that some large business interests are reported to be in favor of such legislation, while other large interests are reported to be in opposition.

/1 Dr. Ayres asked for a Congressional investigation of installment selling practices.

Advertising

None of the witnesses testified on the merits or demerits of advertising as such. Since this interpretation, however, was placed upon the testimony, the testimony of the witnesses is here summarized separately under that heading.

The witnesses stated that advertising does not give them the information they need to make intelligent purchases and that other types of information are necessary. They testified to the harmful effect upon consumers of false and misleading advertising, the examples of which were taken from official reports of actions by the Federal Government. They testified that they are urged by advertising to make their purchases on the basis of brand name, and they cited a number of instances to show that such names do not assure consumers that the quality of products under a given brand name are either uniform or satisfactory for their purposes. One witness cited Federal Trade Commission cases to show that "guaranteed" advertising and advertising purporting to be scientific and impartial may be false and misleading and not impartial.

Recommendations

The following specific recommendations have been urged upon the Committee by these witnesses:

(1) That standards of consumer goods whereby their quality and usefulness for consumers may be accurately described be made available for use in the sale of such goods. The witnesses indicated that the definition of such standards should be undertaken by the Government.

(2) That the sizes of packages in which foods are sold to consumers be standardized to eliminate confusion and deception.

(3) That the Committee ascertain and make known to consumers the effects of resale price maintenance legislation upon retail prices and upon the other factors involved.

(4) That this Committee investigate and make known to consumers the facts concerning the performance of commodity rating agencies, the use of advertising material in the schools, and the purposes, financing and programs of organizations which are, or which purport to be, organizations of consumers.

(5) The proposal made in February, 1938, by a number of consumer spokesmen that a central agency of consumer services be established in the Federal Government was placed before the Committee.

I obtained and assisted the services of these witnesses at the request of this Committee. The testimony which they have presented is

their own. Their resources for preparing and presenting this testimony are extremely limited. To the recommendations which they have made to this Committee I wish respectfully to submit my recommendation that this Committee undertake to examine adequately and thoroughly the questions of vital household consumer importance which they have presented to you, and further that it investigate the costs of distribution of consumer goods in general and the effect upon retail prices and consumer costs of the various practices which these witnesses have described to you in particular.

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APPENDIX A

Extract from "Consumer Movements and Business," by Louis Bader and J. P. Wernette, The Journal of Marketing, July, 1938, pages 4 and 5.

Recently an estimate was made by the Crowell Publishing Company that more than 5,000,000 women in various organizations are affected by consumer educational material and are more or less active in efforts to secure legislation favorable to consumers. These organizations are as follows:

Women's Joint Congressional Committee consisting of:

	Approximate Membership
American Association of University Women	55,000
American Dietetic Association	
American Federation of Teachers	
American Home Economics Association	12,000
American Nurses Association	131,000
Council of Women for Home Missions	
Girls' Friendly Society of the U.S.A.	
Medical Women's National Association	
National Board of the Y.W.C.A.	
National Congress of Parents and Teachers	1,877,073
National Consumers' League	3,000
National Council of Jewish Women	48,000
National Education Association	(several hundred thousand)
National Federation of Business and Professional Women's Clubs	62,000
National League of Women Voters	48,000
National Service Star Legion	
National Women's Trade Union League	
Women's Homeopathic Medical Fraternity	

The group of women making up the membership of this committee is one of the most potent organizations in the country in obtaining the support of women's organizations for legislation of interest to women.

In addition to these there are the following who may be moved to aid in securing action:

	Approximate Membership
American Association for Adult Education	1,100
Consumers National Federation	
Federal Council of the Churches of Christ in America	20,000,000
General Federation of Women's Clubs	2,000,000
League of Women Shoppers	25,000
National Council of Catholic Women	1,000,000
National Women's Relief Society	69,700
International Garment Workers Union	250,000

It will be noticed some of these groups contain men and if full strength is given to all of them the number affected may reach a third of the total population.

These groups are not yet as closely organized as they could be and therefore their effectiveness is not what it may possibly become. But even at the moment to treat the movement lightly would be a mistake. Members of many of these organizations are leaders in other organizations and as such may be powerful factors in canalizing consumers' thoughts along specific lines. As example, Helen Hall, director of Henry Street Settlement in New York, is president of Consumers' National Federation; Mary K. Simkovitch, director of Greenwich House, has just been elected chairman of the newly formed Lower West Side Congress for consumers, and Louis Waldman, a member of the New York State Executive Committee of the American Labor Party, is working strenuously for a Consumers' Bureau for the State of New York.

The first two movements are marked by consumer dependence on aid from outside forces to secure the desired ends. The next three movements are marked by direct action on the part of the consumer himself to secure changes in business conduct which might give him better goods for his expenditures.

APPENDIX B

PROPOSAL FOR AN INVESTIGATION TO ANALYZE THE
WAYS AND MEANS BY WHICH CURRENT PRACTICES AND
HOW FAR THESE PRACTICES LEAD TO UNDERCONSUMPTION,
INADEQUATE RETURNS TO FARM AND FACTORY WORKER,
AND TO BUSINESS BANKRUPTCY.

This investigation to be conducted by a joint committee which is to be appointed one-third by the President of the Senate, one-third by the Speaker of the House, and one-third by the President of the United States.

Submitted by a delegation of consumer, civic and labor representatives under the sponsorship of the Consumers National Federation, 110 Morningside Drive, New York City, February 24th, 1933.

All our national life we have put our faith in production as the road to public welfare. We have studied production and set up federal agencies to further it. Today, we have a productive system that is the envy of the world. It can do much--but it does not create sustained welfare. In our concern for production we have allowed it to exploit consumption and, in the process, to cripple its customers for whom, and for whom alone, it confessedly exists.

So exclusive has been our emphasis upon production that we have believed consumer welfare to flow automatically from business prosperity. We have neglected largely to ask: How effectively do our elaborate productive and merchandising structures really serve the consumer? We know today virtually nothing with accuracy as to the scores of points at which 'business competition', 'monopoly', 'administered prices', and other routine aspects of business and financial processes cripple the consumer. In a democracy no economic system makes sense which is not run so as to maximize consumption. Yet our economic system is primarily run to maximize profits--and the consumer takes the hindmost. The underlying assumption has been that 'free competition' affords the best possible protection to the consumer. Actually, no candid person today pretends that 'free competition' controls our economic life. Such competition as does remain is dwarfed by the price and other control policies and devices of dominating elements in the business community.

No one knows precisely how free or unfree our economy is. What we know is that there is a network of arbitrary interference with competition whereby production is rendered wasteful and insufficient, and consumers--if indeed they are lucky enough to be unemployed--pay tribute to it in the form of a sizable deduction from their purchasing power.

The long-run test of 'business efficiency' is the kind of living it can build for the public, for whom business patently is run. A major need

at present is to put current business under the microscope to ask: How does it operate and, operating as it does, how and where does it promote or curtail the welfare of our people who live by it and its products?

We believe that a major investigation by a special commission should be set up to analyze how current business structure and practices lead to under-consumption, inadequate returns to farm and factory workers and to recurrent business bankruptcies. Not until such a detailed analysis is available can effective remedial legislation be planned in the public interest. Furthermore, this understanding is essential if court action against monopolies is to be more than a temporary palliative. Until such knowledge is available to the public, the goal of self-regulation of their economic destiny by the American people is impossible. Self-regulation at a round table must include self-regulation by the whole people through government participation. Government can only plan an effective role if its policies are based upon an understanding of what is wrong and what needs to be done. The consumer can only play an intelligent role at that table when he knows the facts and how they affect him, and he is powerless to collect these facts himself.

One thing should be made unmistakably clear: We want all the abundance that lies within our grasp, but we do not want that abundance to be wrung out of sweated labor or dispossessed farmers. American abundance means abundance for all the people.

We suggest that such an investigation be carried on by a thoroughly staffed special commission, one-third to be appointed by the President of the Senate, one-third by the Speaker of the House, and one-third by the President of the United States.